

THE COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

PETITION OF MASSACHUSETTS	:	DOCKET NOS:
ELECTRIC COMPANY, NANTUCKET	:	D.T.E. 02-79
ELECTRIC COMPANY, AND NEW	:	D.T.E. 03-124
ENGLAND POWER COMPANY FOR	:	D.T.E. 03-126
APPROVAL OF AN OFFER OF	:	
SETTLEMENT	:	DECEMBER 13, 2004

COMMENTS OF DOMINION RETAIL, INC.

Dominion Retail, Inc. (“Dominion Retail”) hereby submit their comments in response to the Department of Telecommunications and Energy’s (“DTE” or “Department”) December 2, 2004 *Notice Of Filing And Request For Comments* in connection with the above-referenced proceedings. Specifically, the Department seeks comments on the offer of settlement (“Proposed Settlement”) filed with the Department on November 18, 2004 by Massachusetts Electric Company and Nantucket Electric Company (together “MECO”), New England Power Company, and the Attorney of the Commonwealth (collectively, the “Signatories”). The Proposed Settlement purports to resolve all issues pending the MECO’s reconciliation dockets, D.T.E. 02-79 and D.T.E. 03-126, and in MECO’s pending exogenous factor filing docket D.T.E. 03-124.

The Proposed Settlement includes a customer credit of approximately \$19.9 million that would be used to reduce all customer’s bills during the first twelve months after the end of Standard Offer Service (“SOS”), starting on March 1, 2005. The Proposed Settlement would also maintain the SOS rate at its current level of \$0.06802 per kilowatt-hour through the end of SOS. The Signatories allege that by leaving the current SOS rate of 6.802¢ per kilowatt-hour in place through the end of the SOS MECO customers will experience price stability through the winter. Proposed Settlement, Cover

Letter at 2. Importantly, the agreement, when coupled with prior deferrals of SOS costs, would lead to an estimated \$43.7 million under recovery of SOS commodity costs, which will be deferred until 2010. *Id.* Finally, the Proposed Settlement would require MECO to defer until 2010, with interest at the applicable customer deposit rate, the recovery of an estimated \$22.6 million of supply-related costs proposed to be recovered in Docket D.T.E. 03-124 as an exogenous event. *Id.*

For the reasons more particularly set forth below, Dominion Retail strongly objects to the Proposed Settlement. The proposed deferral of supply-related costs would ignore or otherwise distort the reality of the market for generation services, and undermine the development of the competitive market for electricity by failing to include all current market costs or otherwise subsidizing standard offer prices.

I. Deferral of Costs Would Have an Adverse Impact on the Continued Development of a Competitive Electric Market in Massachusetts

The Department has been working towards the establishment of a competitive market for electric service for residential, commercial, and industrial customers, since 1997. By most, if not all accounts, progress has been disappointing, as most competitive providers have been unable to compete with the price for SOS offered by incumbent providers. This has been true because the real-world market price for generation services, when added to the applicable distribution rate, has rendered the price of a competitive provider's alternative service offering unattractive, in many cases, when compared with the price for SOS. Nevertheless, many competitive providers, such as Dominion Retail, have been looking forward to the expiration of SOS in anticipation of the ability to compete once the price-to-compare offered by the utility became more

reflective of market realities. The Proposed Settlement would frustrate attainment of that objective.

In order to promote a competitive market upon the expiration of SOS, the retail rates charged by incumbent utilities must reflect their true cost of supply. Indeed, this principle has been articulated by the Department many times, including in Pricing and Procurement of Default Service, D.T.E. 99-60-A (2000), in which the Department rejected suggestions that default service prices should remain tied to below-market standard offer prices. Instead, the Department moved to market-based default service pricing, noting that:

an important goal in electric restructuring is the development of a competitive marketplace. It is essential to the development of a robust competitive market to have prices set at levels that provide customers with appropriate price signals regarding the costs associated with providing the service, as established by the competitive market. Default service prices that do not represent the actual cost of providing the service would inhibit the development of a competitive generation market and would thus be detrimental to all electricity consumers.

Id at 7.

If the Proposed Settlement were adopted competitive third-party suppliers within the Commonwealth will be competing against artificially-depressed rates. Third-party suppliers do not have the ability to defer costs, as would be allowed under the Proposed Settlement, as their prices must reflect the true cost of service to the customer. Accordingly, in order for the competitive electric market to flourish, the true cost of generation supply must be reflected in the price-to-compare. If all of the wholesale market costs are not captured in retail supply-related rates, third-party suppliers will be

unable to compete against artificially depressed rates that do not reflect market reality, thereby ensuring little or no competition for electric service in Massachusetts.

II. Conclusion

For all of the foregoing reasons, Dominion Retail, Inc. respectfully requests that the Department deny the Proposed Settlement.

Respectfully submitted,
DOMINION RETAIL, INC.

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CERTIFICATE OF SERVICE

This will certify that a copy of the foregoing Comments of Dominion Retail, Inc. were filed electronically with the Department of Telecommunications and Energy by e-mail, by hand with Mary L. Cottrell, Secretary, Department of Telecommunications and Energy, by hand with the Hearing Officer, John J. Geary; and that copies were mailed via First-Class mail, postage pre-paid, to all known parties and/or intervenors on the service lists in D.T.E. 02-79, D.T.E. 03-124, and D.T.E. 03-126, on this 13th day of December 2004.

Michael S. Giaimo